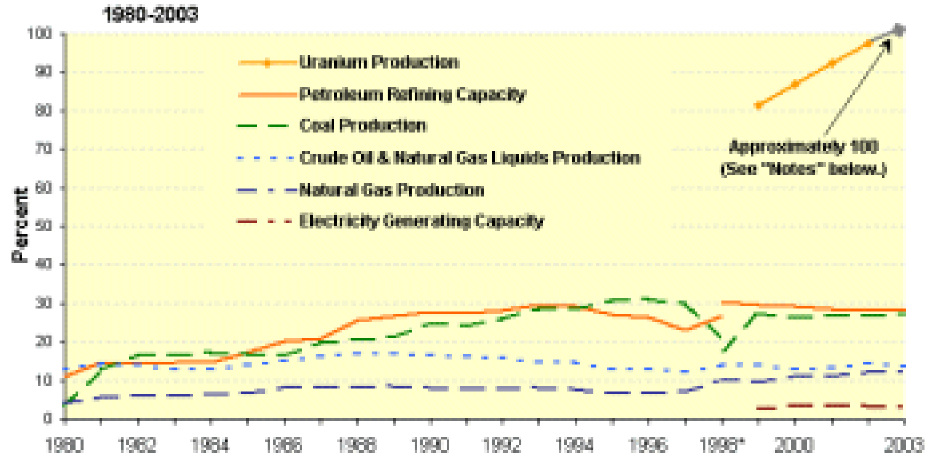
Foreign Direct Investment in U.S. Energy 2003

This report provides an assessment of foreign ownership of energy assets in the United States. Section 657, Subpart 8 of the U.S. Department of Energy Organization Act (Public Law 95-91) requires an annual report to Congress which presents: "a summary of activities in the United States by companies which are foreign owned or controlled and which own or control United States energy sources and supplies … ." EIA intends the information in this report for use by the U.S. Congress, Government agencies, industry analysts, and the general public.

Figure 1. FDI-Affiliate Companies' Share of U.S. Production of Oil and Gas, Coal, and Uranium and of U.S. Capacity for Petroleum Refining and Electricity Generation, 1980-2003



Notes: Total U.S. uranium production in 2002 and 2003 was approximated by the Energy Information Administration (EIA) to avoid disclosure of individual company data. For 2003, the U.S. production reported publicly by FDI affiliates slightly exceeds the total approximated by EIA. Sources for data series for refining capacity and coal production changed in 1998.

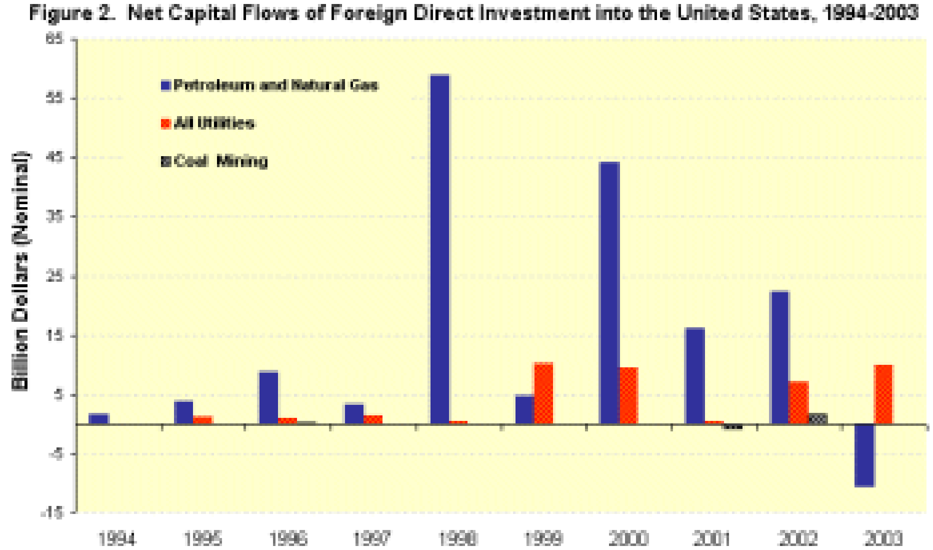
Sources: **2001-2003:** Tables 1-6 of this report. **1980-2000:** Energy Information Administration, "Foreign Direct Investment in U.S. Energy 2000," Figure 1, http://tonto.eia.doe.gov/FTPROOT/financial/2000_fdi.pdf

click image to enlarge.

Introduction

Foreign direct investment (FDI) in the United States is defined as the ownership or control, directly or indirectly, by one foreign investor of 10 percent or more of the voting securities of an incorporated U.S. business enterprise or the equivalent interest in an unincorporated U.S. business enterprise (or asset). Ownership or control of less than 10 percent of a business is not considered to be direct investment. In this report, an FDI-affiliate company or FDI affiliate is

Figure 2. Net Capital Flows of Foreign Direct Investment into the United States, 1994-2003



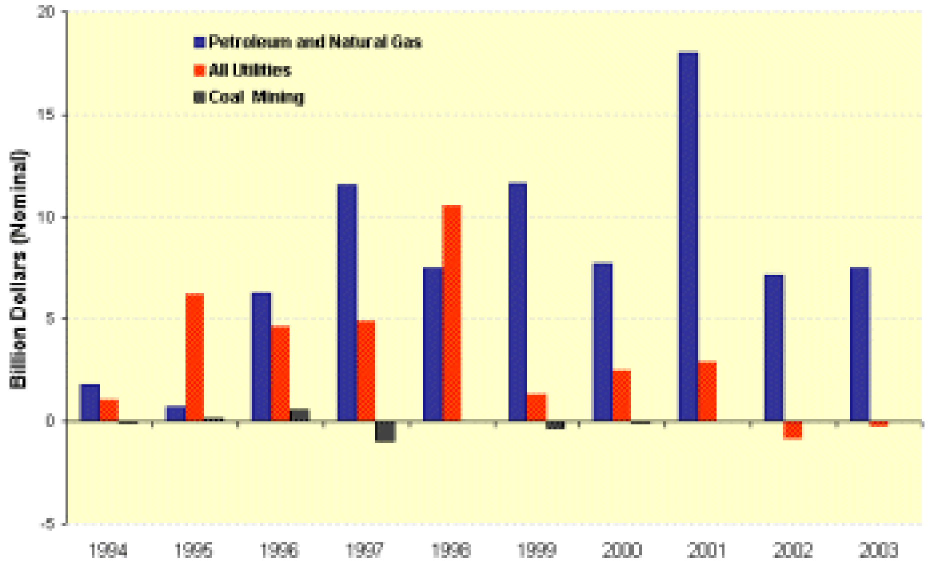
Sources: Bureau of Economic Analysis, "Foreign Direct Investment in the United States," *Survey of Current Business* (Washington, DC, September 2004), Table 17, and preceding issues.

click image to enlarge.

a U.S. business in which there is foreign direct investment.[1] All of the information in this report is from publicly available sources. This report describes the role of direct foreign ownership of U.S. energy enterprises with respect to their energy operations, capital investments, and net foreign investment flows (including net loans). In addition, since energy investments are made in a global context, the report examines patterns of direct investment in foreign energy enterprises by U. S.-based companies. For a discussion of acquisitions and divestitures of U.S. energy assets by foreign investors in 2003, see Energy Information Administration, After Five Years of Elevated Activity, Direct Acquisitions of U.S. Energy Assets by Foreign Investors Collapse in 2003 (April 19, 2005).

FDI is one measure of the continuing influence or control of foreign investors, companies, or individuals over the management and disposition of U.S. assets of production.[2] However, determining influence or control over a company is a very complex and often subjective process in which many factors other than the percentage of voting rights or ownership must be considered. While holding 10 percent or more of a company's voting rights suggests control of that company, it does not guarantee it.[3]

Figure 3. Net Capital Flows of U.S. Direct Investment Abroad, 1994-2003

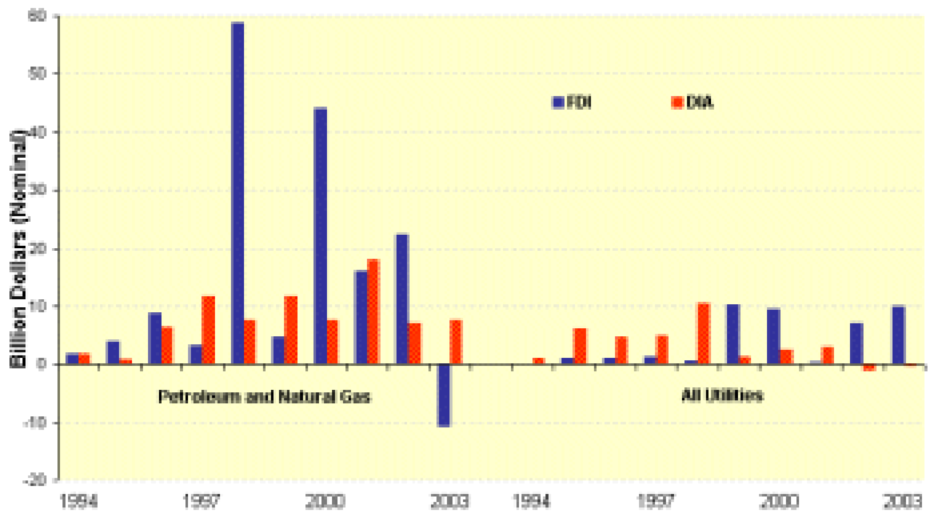


Sources: Bureau of Economic Analysis, "U.S. Direct Investment Abroad," *Survey of Current Business* (Washington, DC, September 2004), Table 17, and previous issues.

click image to enlarge.

Table 1 Table 2 Table 3 Table 4 Table 5 Table 6 Table 7

Figure 4. Net Capital Flows of U.S. Direct Investment Abroad and Foreign Direct Investment into the United States, 1994-2003



Sources: Bureau of Economic Analysis, "Foreign Direct Investment in the United States" and "U.S. Direct Investment Abroad," *Survey of Current Business* (Washington, DC, September 2004), Table 17, and previous issues.

click image to enlarge.

FDI Affiliates' Operations in U.S. Energy

From 2002 to 2003, many of the operations of the U.S. energy companies that were the affiliates of foreign direct investors experienced modest declines. The production of crude oil and natural gas liquids (oil) by affiliates declined, while the production of (dry) natural gas was essentially flat. (Table 1). The largest contributors to the decline in oil production were U.S. affiliates of BP (United Kingdom), whose production declined mostly in the onshore areas of the lower-48 States. BP's affiliates also experienced a decline in their U.S. natural gas production, particularly in the Gulf of Mexico; however it was largely offset by an increase in natural gas production by U.S. affiliates of EnCana (Canada), which had two major acquisitions of U.S. oil and gas production assets in 2002.[4]

The number of branded retail outlets and total gasoline sales of U.S. affiliates of foreign investors both declined in 2003 (Table 2). The decline in branded retail outlets was led by U.S. affiliates of Royal Dutch/Shell (Netherlands and United Kingdom). At the end of 2003, these affiliates were part way through a plan to reduce the number of their service stations in the United States, which had increased in 2002 as a result of acquisitions of parts of Equilon Enterprises and Motiva Enterprises.

Costs incurred in oil and gas production and particularly capital expenditures in petroleum refining by U.S. affiliates of foreign investors both declined. In production, spending by U.S. affiliates of EnCana declined sharply, following its acquisitions of oil and gas properties in 2002 from Williams and El Paso Energy. In petroleum refining, U.S. affiliates of Royal Dutch/Shell had a substantial fall in capital expenditures in 2003, following their 2002 acquisitions of parts of Equilon and Motiva and their refinery assets (Table 3).

In electric power, the generating capacity of affiliates declined as two foreign direct investors exited the U.S. market (Table 4). British Energy (United Kingdom) was required to sell its stake in AmerGen Energy, which owned and operated 3 nuclear power stations in the U.S., as part of its restructuring agreement with its creditors. Marubeni (Japan) focused its overseas electric power activities in Asia by swapping its share of Sithe Energies for Sithe's Asian assets.

The production of uranium concentrate by the affiliates of Cameco (Canada), the only remaining substantial foreign direct investor in the U.S. industry, also fell from its 2002 level, when BHP Billiton (Australia and United Kingdom) withdrew from the U.S. industry (Table 4).

Petroleum refining capacity and coal production by U.S. affiliates of foreign direct investors were little changed in 2003 (Tables 6-7).

Recent trends in the participation of U.S. affiliates of foreign direct investors in U.S. energy markets were generally continued in 2003 (Figure 1). The affiliates have increased their share of uranium production in every year since 1999, culminating in a practical monopoly of that industry in the United States. The affiliates have generally maintained their relative positions in the other sectors of the U.S energy industry over the past few years, notwithstanding small changing shares in natural gas production and petroleum refining.

Flow of FDI Funds into the United States

The measure of FDI used in this report is net capital flows into the United States, that is, the net inflows of capital to FDI affiliates in the United States from foreign investors.[5] The inflows are recorded on a net basis, that is, the gross inflow of FDI to the United States from foreign investors minus the gross return of FDI to foreign investors. Net FDI capital inflows are composed of three types of capital payments: (1) net capital contributions to new and existing FDI affiliates, (2) net earnings reinvested in FDI affiliates, and (3) net loans to FDI affiliates.[6]

Net foreign direct investment capital flows into the U.S. energy industry were slightly negative in 2003, as net outflows in petroleum and natural gas exceeded net inflows to utilities (Figure 2). One possible[7] reason for the large net outflow in petroleum and natural gas may be that, given the high profit levels in the industry in 2003, one or more U.S. affiliates returned capital to its foreign parent, either in the form of retiring debt, repurchasing stock, or paying dividends.[8] The other notable FDI flow was a net inflow into U.S. utilities, which was, however, likely into water, sewage, and other systems, because the largest foreign acquisition of a U.S. utility was RWE's (Germany) $7.7 billion purchase of American Water Works.

Flow of Direct Investment Abroad from the United States

The counterpart to FDI capital flows is direct investment abroad (DIA) capital flows, that is, the net outflows of capital from U.S. investors to their DIA affiliates overseas. Net direct investment abroad in foreign energy industries was largely directed to its the petroleum and natural gas segment in 2003 (Figure 3); however, there were no large foreign acquisitions by U.S. energy companies. Part of the explanation for this may be that U.S. oil and gas production companies were sending capital to their foreign affiliates for use in overseas exploration, development, and production expenditures. It is clear that foreign upstream spending by the larger U.S. oil and gas producers has been generally rising since the mid-1990s.[9]

Since 1994, petroleum and natural gas has dominated utilities and coal mining in both FDI inflows and DIA outflows (Figures 2-3). Within segments, FDI inflows swamp DIA outflows in petroleum and natural gas, in large part because of BP's acquisitions of Amoco for $53 billion in 1988 and ARCO for $27 billion in 2000 (Figure 4). FDI inflows and DIA outflows are much more closely matched in utilities, with DIA dominating the 1994-1998 period and FDI dominating the 1999-2003 period, as foreign utilities began aggressively expanding into the United States.

Endnotes

[1]The FDI-affiliate companies included in this report include all of the U.S. energy companies that could be determined to be FDI affiliates from publicly available information by the Energy

Information Administration.

[2]The U.S. International Investment and Trade in Services Survey Act stipulates that "ownership or control of 10 percent or more of an enterprise's voting securities is considered evidence of a lasting interest in or a degree of influence over [the enterprise's] management sufficient to constitute direct investment." Alicia M. Quijano, "A Guide to BEA Statistics on Foreign Direct Investment in the United States," *Survey of Current Business* (Washington, DC, February 1990), p. 29.

[3]The percentage amount is, of necessity, arbitrary, because no exact percentage of ownership is necessary to achieve control of a company. Even ownership of greater than 50 percent of a company may not be sufficient for control, because agreements among the owners may require the approval of more than a majority for some actions to be taken. For further discussion and a comprehensive analysis of FDI in the United States, see Edward M. Graham and Paul R. Krugman, *Foreign Direct Investment in the United States*, 3rd ed. (Washington, DC: Institute for International Economics, 1995).

[4]See Acquisitions of U.S. Energy Assets by Foreign Investors in 2002 Remain High, December 23, 2004.

[5]An alternative measure is the FDI position, which is the "value of [foreign] direct investors' equity [including retained earnings] in, and net outstanding loans to, their [FDI] affiliates." See Maria Borga and Daniel R. Yorgason, "Direct Investment Positions for 2001, Country and Industry Detail," *Survey of Current Business* (July 2002), p. 26. FDI capital inflows are discussed in this report because the FDI position data that are available by industry and country are only based on book values, not transactions values. Changes in book values may not accurately represent actual FDI capital inflows.

[6]Net FDI capital flows are annual net international capital flows. They do not include the FDI affiliate's operating expenditures, allowance for depreciation, or changes in the value of capital owned.

[7]EIA cannot confirm this, because individual company data, which are collected by the Bureau of Economic Analysis, are not publicly available.

[8]See Energy Information Administration, *Performance Profiles of Major Energy Producers 2003*, EIA-0206(2003) (Washington, DC, March 15, 2005).

[9]Energy Information Administration, Form EIA-28 (Financial Reporting System).